

# **Topic: The importance of the implementation of the Financial Regulation in Crypto Currency**

**Introduction**

Cryptocurrency is virtual money system that functions same as standard currency, enabling used to make payment for good and services. The coin is free from centralised authority and depend on the transmission of digital information, using cryptograph method to ensure legitimate, unique transmission (Farell, 2015). Crypto currency is a subset class of digital currency which worked on block chain technology an open distributed ledger that record transactions on a double speed. The decentralised structure allows the transmission to have increased capacity, better security, and faster settlement (D.Lee, 2018). Cryptocurrency is a digital money that depends on peer-to-peer technology for online transaction between a buyer and a seller in an online marketplace. The users can hold currency as electronic files on a computer hard drive and store in online on one of the accessible wallets (E.Howden, 2015).

The financial crisis of 2008 was the most economic disturbance in the era causing major contraction in the global economy. The major reason behind was the failure of the regulatory bodies to control the misconduct and excess in which financial institution were indulging prior to the crisis (M.Brunnermeier, 2009). Financial regulation is very important for the smooth running of the whole financial system. Financial regulation refers to the rule and law applied to the financial industry such as bank, credit union, and insurance companies for the stability of the financial system and protect the consumer and prospect of the economy. The regulatory bodies setup by the government with an aim to oversee functioning and fairness of financial market with goal to prevent and investigate fraud, keeping the market transparent and ensure the fair treatment of client and customers.

### **Aim and Objective**

The aim of this research paper is to demonstrate the necessities of the implementation of the financial regulation in cryptocurrency. The virtual and decentralised structure of the cryptocurrency possess the greatest dilemma to the current regulatory system as it is difficult to regulate the distributed network of a block chain system as the system works in infinite loop and each second one million data mining happens . The currency needs to be standardised and to make it sustainable regulatory bodies must be implemented with a goal to limit fraud, protect consumers, and apply viable taxation systems (H.Nabilou, 2015). The regulation will offer great legitimacy to a currency struggling to gain mass acceptance. The Cryptocurrency is a chain of digital signature and has no trail of transaction which means the ownership is programmed into the coin and not the account. The detail is logged onto the virtual online wallet and stored in hard drive this high technology posses' high risk of fraud, corruption, and theft. This high advanced future needs to be regulated for the smooth flow of the transaction. Government is facing challenge in expanding the existing law to face the unique challenge of the crypto currency world (T.Jacquez, 2016).

The cryptocurrency uses the process of cryptograph which gather all the information and data, passing through the block chain as it requires no third party it is very difficult for the government and the law enforcement to control it (M.Miltunovic, 2017). The virtual currency cannot be controlled, and it can be only accepted as a legitimate way of trading. The high volatility and destabilised structure of the crypto market are strictly needed to be put under some strict bodies to have a sustainable and fair run of the crypt market. The Implementation of the financial regulation will prevent the fraud transaction and stop the criminal activities. The no regulation on crypto market may result in the misuse of the virtual currency in term of high corruption and terrorism funding.

The objective of this research is to understand the gap in the implementation of regulations in cryptocurrency. The research covers the importance of financial regulation in crypto market as regulating the crypto assets is the biggest gap exists in the crypto world. How the implementation of financial regulation smoothens the functioning of the crypto market by avoiding fraud and money

laundering activity. Crypto Currency market itself is a big deal so adding financial regulation in it wouldn't be easy this research will also elaborate the process of setting up the financial regulation in crypto currency market. The control of crypto assets in the hand of government body and big investors are the factor that cause high volatility in cryptocurrency value which can be stabilised by the implementation of financial regulation. The research will evaluate the pre market condition and post market condition of crypto market with full functioning of financial regulation.

### **Research Question and Justification**

1. Why it is very necessary to implement financial regulation in cryptocurrency?
2. Can financial regulation play a significant role in stabilising the cryptocurrency market?
3. What would be the post implementation effect of financial regulatory body on crypto currency assets?

The expanding market and the potential to revolutionize the way the money is exchanged has brought up many challenges and pitfall globally. The irregulated distribution network as decentralised blockchain process which gather all information and passes it to the distribution ledger by using the cryptograph to make the system secured and all new can be controlled by its own system. Cryptocurrency has no centralized system, and no one can control it entirely like the banking system, where currency can be issued and printed. The virtual and decentralized nature of the technology makes the cryptocurrency market open with many gaps and this are widely used by investors to make profit. Giving regulatory body to cryptocurrency will make the market more real as still some people doesn't believe on its working system. The common regulatory body can give crypto market a standard and stabilise value. Also, each country is trying to make the crypto market dynamic by applying new rules to the crypto world as crypto itself has no regulatory body of its own. This is the high time to sustain the crypto market with some regulatory measures to offer great legitimacy to a struggling currency to gain mass acceptance.

As crypto currency has no regulatory bodies the big investors are taking huge advantage of this opportunity to make big profit. Big investors are manipulating the price of crypto currency and making them high volatile in a day. These investors announce some favourable news in term of cryptocurrency and once small investors invest into it for a long term and make the crypto price get arise by high percentage. These big investors make the favourable announcement decline, resulting in the sharp fall of the price value and small investors face huge loss. The implementation of some rules and proceeding it very strictly will feel up this gap and price will become stabilise. Even countries are making the price volatile by accepting the crypto currency as digital coin and later banning it in the country. This makes the value so volatile, and this manipulation is happening because of the weaken regulation in the cryptocurrency market.

The acceptance of the financial regulation in crypto currency will make the crypto market more genuine. The goal of the regulation to prevent fraud and the smooth running of the price value will be standardised and this will help small and big investors to have smooth transaction. Despite having control on the cryptocurrency by applying the regulation it is very difficult to have major control on the protocol of cryptocurrency. The regulations are likely to induce changes by interfering with the operator choice. Regulation may initiate the development of regulatory compliant cryptocurrency protocols, but also protocols specially designed to circumvent regulations

## **Literature Review**

This section covers the major point used in the previous literature on crypto currency and the importance of the financial regulation in the crypto market. In this research the clear elaboration of financial regulation on crypto market will give the clarity in thinking about the specific reason behind the implementation of rule. How crypto market will work after the implementation of financial regulation.

## **Cryptocurrency**

A cryptocurrency is a type of digital money that protects information about transactions and exchanges on the internet using blockchain technology and cryptography. Bitcoin is the most well-known, but there are many more, including Ethereum, Ripple, and others. They are decentralised, which implies that no single entity, like as a banking system, a financial institution, or the government, can exert control over them. There is no server in a decentralised network, therefore individual units must do all tasks independently. Everyone in the network has a list of transactions, so it appears that everyone has access to it, but no one owns it. A cryptocurrency like Bitcoin is made up of a large network with many peers, each of whom has a record of the entire history, which contains all the transactions that have ever occurred. It is a form of digital money that will retain and grow in value over time. It is quite variable, yet it is a quick and convenient method of payment. The bitcoin market has become insanely volatile. Even though they are used for payments, they are also utilised for speculation and value storage, which only serves to reduce the payment elements. The market for investors and speculators has exploded in size and is quite volatile. It effects economy on five ways: power to the dark web, speculation, politicization of money, apprehension among the central banks and the emergence of new market. (M.Miltunovic, 2017)

## **Financial Regulation setup in Cryptocurrency Market**

According to the report, The decentralised structure of the crypto currency has made the regulation impossible and decentralised regulation should be implemented. The decentralised regulation should be imposed on the existing regulation and instead of regulating the crypto currencies at the code the regulation should be done on the application and the uses. This implication can be done on toward the middleman such as large and centralised operator and miner that are likely to replicate the function of crypto market. Despite reducing the role of third party in payment and other financial transaction. The crypto currencies have created various middleman and based on the role of the middleman who likely take the role of gatekeepers can be regulated to be successful in addressing the emerging risk of cryptocurrency. (H.Nabilou, 2015)

The diversify use of the cryptocurrency in different sectors such as bank, companies and digital assets holding has brought the governing bodies to achieve regulatory body of law pertaining to virtual currencies and block chain technology. Federal and state agencies are closely administering the cryptocurrency business and taking necessary step to the crime related to money laundering and fraudulent activities. The development of a standardised regulatory law is the major topic and research in the coming year. The article provides a complete review of the government releases, taskforce, and proposed bill pertaining to virtual currency. The difficulties are to design a law that simulate innovation while protecting consumer welfare and satisfacti (Hughes, 2017)on.

## **Crypto market with existing gap**

This paper provides an overview of how cryptocurrency and blockchain associated payment method are the emerging technologies which has 200 million users. It plays a major role on how our economy and society functions. Crypto currency has become a major part of the economy by competing with bank and stock market, attracting investors deposits and investment activity fees. Cryptocurrency is considered as major investment opportunity and year after year gains immense popularity. Such a big platform with no major function of regularities can lead to many criminal activities and misuse of technologies with public security and safety. Ransom and terrorist activities are the major threat that can be easily carries out without proper investigation of the process flow of the cryptocurrency. The protection against the misconduct of the corporate and illegal tax saving are the other threat in the crypto world. The paper looked on the importance of regulating the crypto market to avoid such criminal and fraud transaction. (Courtois, sept 2021)

The article point out the misuse of cryptocurrency for terrorism funding. The rise of Financial Technology (FinTech) innovations and New Payment Products and Services (NPPS) is extremely beneficial to both businesses and consumers. Prepaid cards, e-payments, mobile banking, mobile payment services, Internet-based payment services, and virtual currencies are just some of the goods and services that are associated with a slew of issues. The cross-border character of these products and services necessitates international cooperation in determining how they should be regulated. This article focuses on the possible risk of terrorism financing using virtual currencies, which could jeopardise the progress made against terrorism financing through the Financial Action Task Force's efforts (FATF). Money laundering and terrorism financing have long been linked to countries with lax financial regulatory and law enforcement systems. The potential of terrorism financing has grown even more since the development of quick but technologically complicated payment mechanisms like virtual currencies, which operate across governments with diverse approaches to regulating Internet/cyber-based transactions. The financial regulatory worldwide are at different stages of development and the law enforcement worldwide vary. This call for global action to develop Regtech to enable the regulation and monitoring of fintech products and services. (Salami, 2018)

According to it the development in the financial technology, computing power, and networking have fundamentally changed the way financial services are provided and they also bring up the challenges to the current financial regulation. The current financial regulation is inadequate to withstand the algorithm and autonomous computer network presented by the rise in the cryptocurrency. The fintech defining challenged the regulation goal of protecting consumer, allocating capital and, the prevention of systematic risk. This article states the problem faced by financial regulation to handle the high features of cryptocurrency and create great opportunity for consumer abuse and investor fraud. The article imposes to design a more effective financial regulatory structure focus on boosting data generation in fintech marketplaces, strengthening cybersecurity procedures among fintech participants, and balancing fundamental priorities. (Magnuson, march 2018)

### **Cryptocurrency market after the implementation of financial regulation**

This article clearly demonstrates the after effect of financial regulation on the market of cryptocurrency. It has been found that the regulation will impose many changes by interfering with the operator choice. The government may attack and destroy cryptocurrency, with an opportunity to force crypto market to operate in compliance with regulations. The tight regulation may trigger concerted behaviour of the users and the operator to follow the changes in the protocol to avoid regulatory burden and liabilities. Regulation can impose direct rule to the protocol by controlling the amount of coin transferred via the anonymity feature of cryptocurrency. The regulation can order miners within its jurisdiction to enforce some changes in the protocol. The effective enforcement will make operator to adhere to the protocol. (Østbye, april,2018)

The decentralised nature of the cryptocurrency makes the tracking of money transfer impossible. According to this report the ability to encrypt the user identity is an issue for law enforcement and new regulation should be implemented and how this new law enforcement can investigate the crime when the nature of virtual currency can be circumventing jurisdiction. The article demonstrates how cryptocurrency can be used by organisation for illicit purposes and how law must be changed to protect virtual currency from global crime. (Jacquez, may 2016)

### **Cryptocurrency challenges with regulation**

According to this report cryptocurrency has been in the sphere of popular news and this has increased the interest between crypto market, companies, and financial regulation. The rejection of the nine proposed bitcoin-based exchange trade fund and the second rejection of the smother proposal has increased the tension between financial market regulator and crypto currency market innovators. Cryptocurrency faces a unique set of issues, many of which originate from its interactions with traditional financial system regulators, such as the Securities and Exchange Commission (SEC). 132 While the SEC had noble intentions in applying Section of the Exchange Act of 1934 to protect investors from fraud and market manipulation, the SEC's application was severe, leaving bitcoin based ETPs with little capacity to pass the SEC's test. ' This isn't the ideal situation for ETP hopefuls, but perhaps something good will come out of their inability to win SEC clearance. The SEC's protracted disapproval orders exposed numerous serious flaws in the cryptocurrency market. (Brown, 2019)

### **Research and Methodology**

This part of research demonstrates the research method and the data sample collection adopted to analyse the data.

#### Research Philosophy

The research philosophy is very important to understand as different researchers uses different belief, assumption, knowledge and nature of the study. The researchers have different assumption about the nature of truth and knowledge. The major dissertation of the business or master level has philosophy research as pragmatism, positivism, realism, and interpretivism. The positivism research approach has been involved to perform this research on the importance of financial regulation in cryptocurrency.

As a positivism researcher the research should be neutral based on knowledge gained through observations. The idea limited to data collection and interpretation and no personal influence should be implemented in the observed data. This research will be done on quantitative method and make use of the statistical analysis. The data used here is totally reliable and taken down from the genuine website based on cryptocurrency and financial regulation.

#### Data and sample collection

The data collected here is the secondary data which is already collected on the past through primary sources and made available on the genuine source for researchers. The data collected are from the cryptocurrency and financial regulatory company website. The objective and aim of this research can easily be achieved from the collected data and positive research approach. The research question will elaborate the importance of regulatory bodies in cryptocurrency.

#### Sample Size

The research has adopted the quantitative research method. The data used is strict to the major key word of the research title. The data used here completely define the cryptocurrency and financial regulation. The data used is in the range of year 2005 to 2021.

## Methodology

There are three main types of research methodology: quantitative, qualitative, and mixed approach. The researchers approach one of the methods based on the research aim and objective. This research is using the quantitative approach method. The two quantitative method used will be descriptive research which will provide the systematic information of the cryptocurrency market with some collected data . The second will be correlation research which will give determine the relation of the crypto currency market with financial regulation and how it is related to other financial market. Also, it will interpret the crypto market condition with and without financial regulation.

## Conclusion

To investigate the research question based on the aim and objective of this research many literatures on financial regulation and cryptocurrency has been analysed and reviewed. The above review of literature state that it very important to have very strict government regulatory body in cryptocurrency market. The gap of financial regulation in crypto market has opened the path of many frauds, ransom, and crime. The company corruption and terrorism activities are also carried out through cryptocurrency. if this gap of regulation exists in the market it would not only damage the country economy but also make the country peace in at risk by high criminal activities.

## bibliography

- Brown, M. A. (2019). Cryptocurrency and Financial Regulation: The. *Cryptocurrency and Financial Regulation: The*.
- Courtois, N. T. (sept 2021). Crypto Currency Regulation and Law. *Crypto Currency Regulation and Law*.
- D.Lee. (2018). *Cryptocurrency: A new investment Opportunity* .
- E.Howden. (2015). *HE CRYPTO-CURRENCY CONUNDRUM: REGULATING AN UNCERTAIN FUTURE*.
- Farell, R. (2015). *An analysis of the Cryptocurrency Industry* .
- H.Nabilou. (2015). *How to Regulate Bitcoin?*
- Hughes, S. D. (2017). CRYPTOCURRENCY REGULATIONS AND ENFORCEMENT IN THE. *CRYPTOCURRENCY REGULATIONS AND ENFORCEMENT IN THE* .
- Jacquez, T. (may 2016). CRYPTOCURRENCY THE NEW MONEY LAUNDERING PROBLEM FOR BANKING, . *CRYPTOCURRENCY THE NEW MONEY LAUNDERING PROBLEM FOR BANKING, .*
- M.Brunnermeier. (2009). *The Principle of Financial regulation*.
- M.Miltunovic. (2017). *Cryptocurrency* .
- Magnuson, W. (march 2018). Financial Regulation in the Bitcoin Era. *Financial Regulation in the Bitcoin Era*.
- Østbye, P. (april,2018). Will Regulation Change Cryptocurrency Protocols. *Will Regulation Change Cryptocurrency Protocols*.
- Salami, I. (2018). Terrorism Financing with Virtual Currencies: Can. *Terrorism Financing with Virtual Currencies: Can*.
- T.Jacquez. (2016). *CRYPTOCURRENCY THE NEW MONEY LAUNDERING PROBLEM FOR BANKING, .*